

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 LAB-04 EPG-02 SIL-01 OMB-01 ABF-01 FSE-00

AGRE-00 NSC-05 SS-15 STR-04 CEA-01 L-03 H-02

/101 W

-----036459 222057Z /72

R 221310Z JUL 77

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 2903

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

UNCLAS BRASILIA 6087

E.O. 11652: N/A

TAGS: EFIN BR

SUBJECT: CRUZEIRO DEVALUATION AND INTERNAL PRICES

REF: (A) BRASILIA 4930 AND (B) BRASILIA 5352

1. AS OF JULY 21, 1977, THE CRUZEIRO WAS DEVALUED TO 14.49 PER DOLLAR FOR BUYING AND 14.56 PER DOLLAR FOR SELLING. THIS WAS THE EIGHTH ADJUSTMENT IN CY 1977 AND CAME 23 DAYS AFTER THE LAST CHANGE. THE AVERAGE INTERNAL THUS FAR IN 1977 HAS BEEN 26 DAYS.

2. NEW BUYING RATE CONSTITUTES A 1.471 PERCENT CHANGE AND BRINGS CUMULATIVE DEVALUATION OF CRUZEIRO TO 18 PERCENT IN CY 1977 AND 33 PERCENT IN LAST 12 MONTHS. IN COMPARISON, INTERNAL INFLATION WAS ESTIMATED 23 PERCENT IN 1977 TO DATE AND ABOUT 47 PERCENT IN LAST 12 MONTHS.

3. RATE OF DEVALUATION IN 1977 IS SOMEWHAT LESS THAN IN 1976 WHEN CUMULATIVE ADJUSTMENT THROUGH UNCLASSIFIED

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JULY WAS 21 PERCENT. SLOWDOWN IS PROBABLY PROMPTED IN PART BY THREE RECENT DEVELOPMENTS: (A) PRELIMINARY REPORTS OF A SIZEABLE TRADE SURPLUS IN JUNE; (B) WEAKENING OF US DOLLAR IN WORLD MARKETS; AND (C) CONTINUED REDUCTION OF INTERNAL INFLATION IN JUNE.

4. PRELIMINARY DATA INDICATE A TRADE SURPLUS OF ABOUT \$235 MILLION IN FIRST SEMESTER ON BASIS OF SURPLUS OF \$200 MILLION IN MONTH OF JUNE. MIN FIN SIMONSEN HAS STATED THAT EXPORTERS ARE DOING WELL AND HAVE NOT PRESSED FOR MORE RAPID RATE MOVEMENT. CRUZEIRO PEG TO US DOLLAR MEANS THAT WEAKENING OF DOLLAR HAS RESULTED IN GREATER DEPRECIATION OF CRUZEIRO WITH RESPECT TO NON-US. MARKET THAN INDICATED BY CRUZEIRO/DOLLAR RATE. AS RESULT OF MOST RECENT ADJUSTMENT CUMULATIVE DEVALUATION IN 1977 OF CRUZEIRO AGAINST DEUTSCHE MARK IS ABOUT 24 PERCENT AND AGAINST YEN ABOUT 32 PERCENT.

5. BRAZIL'S GENERAL PRICE INDEX ROSE ONLY 2.0 PERCENT IN JUNE COMPARED TO 4.1 PERCENT IN APRIL AND 3.6 PERCENT IN MAY. WHOLESALE PRICES INCREASED 1.6 PERCENT IN JUNE COMPARED TO 3.4 PERCENT IN MAY. IMPROVED PERFORMANCE IN JUNE GIVES SLIGHTLY BETTER RESULTS IN FIRST SEMESTER 1977 THAN IN 1976. ALTHOUGH ONE MONTH DOES NOT CONSTITUTE A TREND, MIN FIN HOPEFUL THAT CURRENT CREDIT AND FISCAL RESTRAINTS WILL PERMIT JUNE RESULTS TO BE SUSTAINED IN SECOND SEMESTER. THIS WOULD GIVE INFLATION OF ABOUT 38-40 PERCENT IN CY 1977 COMPARED TO 46 PERCENT IN 1976 AND 46 PERCENT IN 12 MONTHS ENDED JUNE 1977.

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	1977	1976	12MONTHS
	JUNE JAN-JUNE	JAN-JUN	JUL 76-JUNE 77

GENERAL PRICE

INDEX	2.0	22.6	23.3	46.2
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RIO COST OF

LIVING	2.6	23.9	24.4	44.2
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WHOLESALE PRICES	1.6	21.1	20.3	45.8
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
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Control Number: n/a
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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